

Review of the 2006-07 Budget



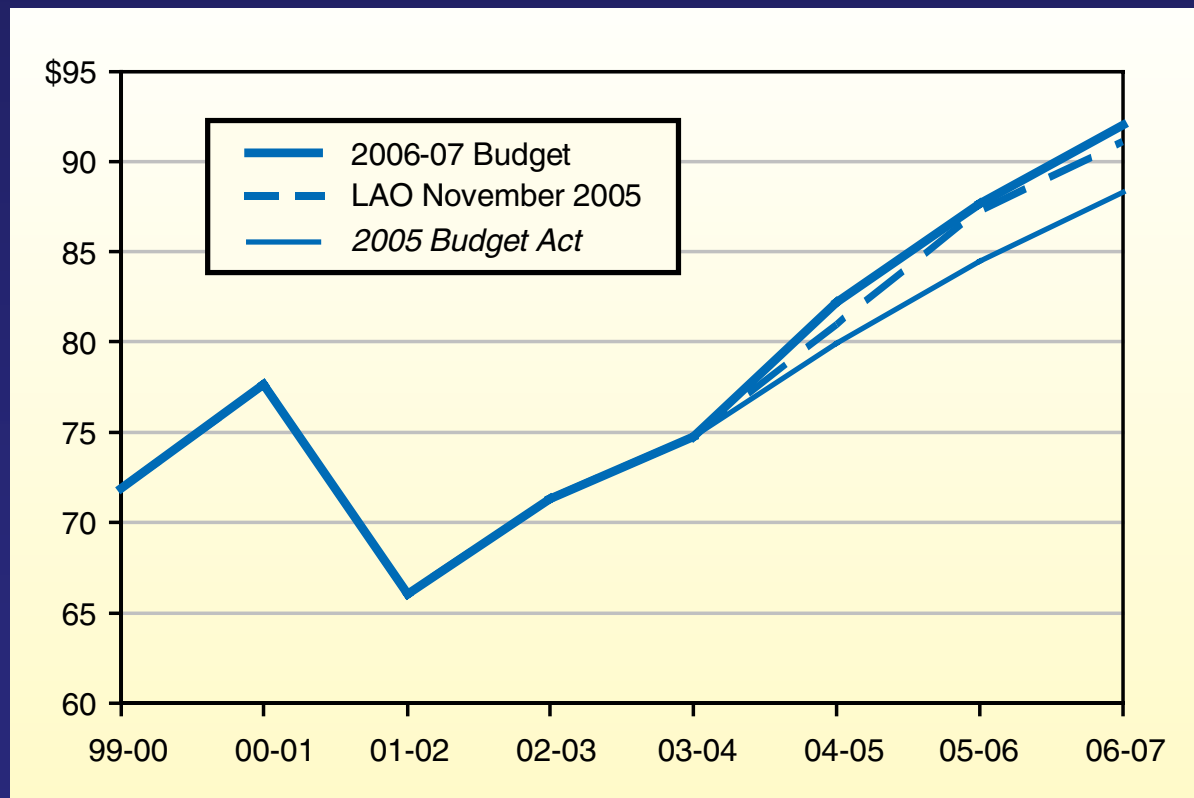
Legislative Analyst's Office

Budget Plan

- **Fails to Get State's Fiscal House in Order**
- **Despite Booming Revenues,
Leaves State With:**
 - Large structural shortfalls
 - Enormous outstanding obligations

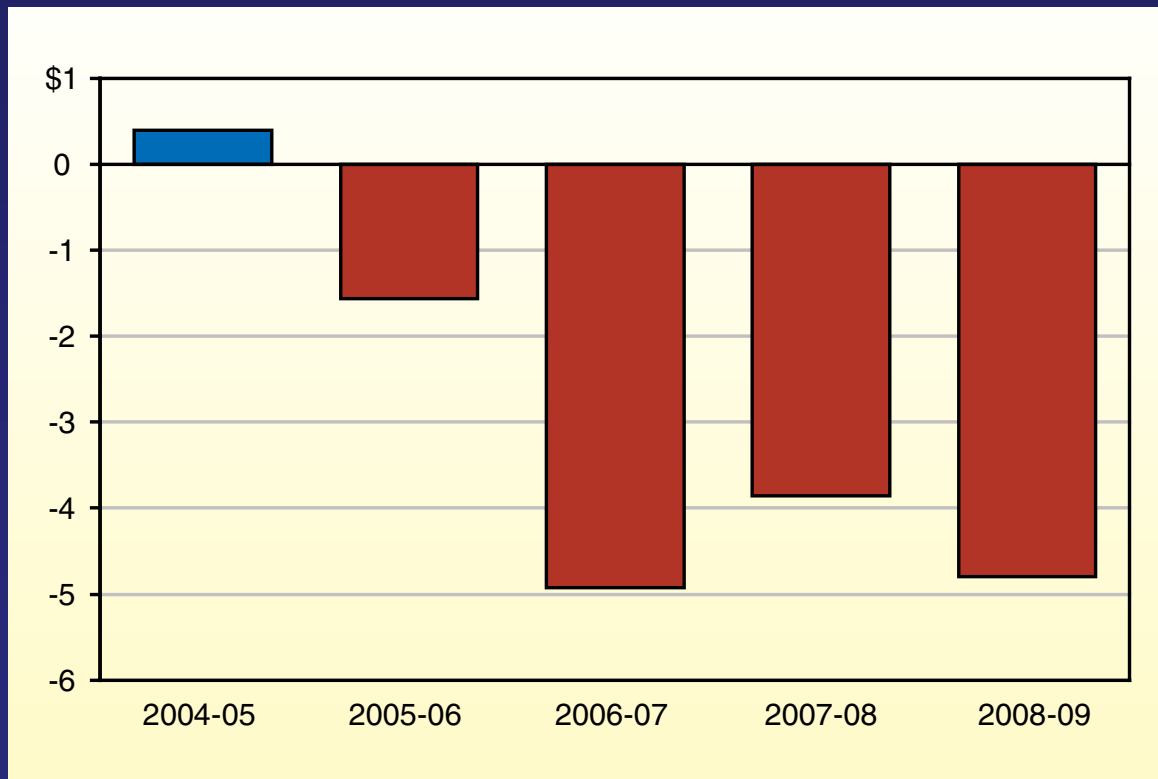
General Fund Revenue Strengthening

Total General Fund Revenues
(In Billions)



Operating Shortfalls Persist Despite Booming Revenues

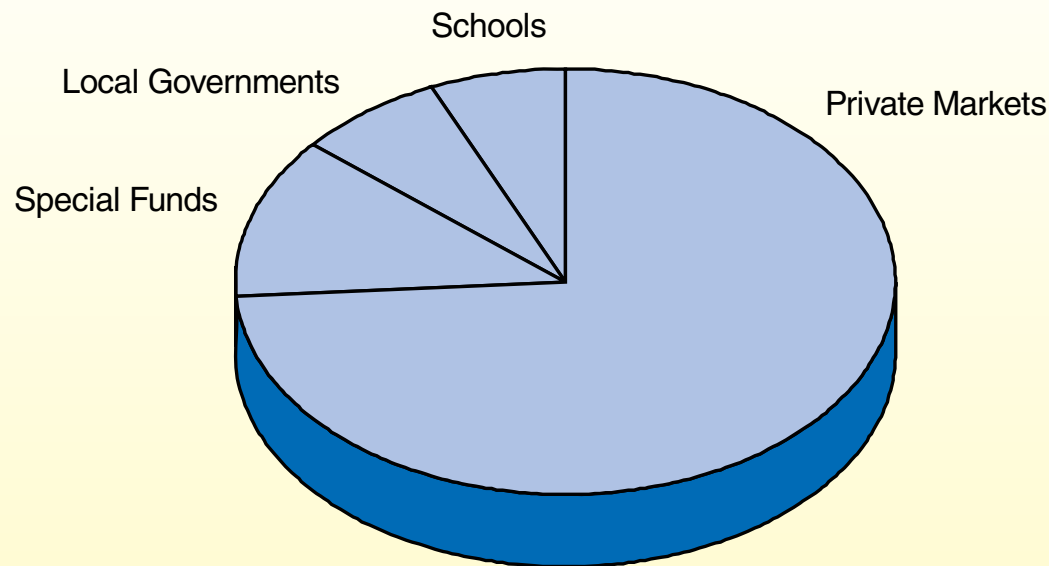
General Fund
(In Billions)



Risks and Pressures

- **Economy**—Higher Energy Costs/
Steeper Real Estate Decline
- **Lawsuits**—Potential Exposure of
Nearly \$1.5 Billion
- **Federal Deficit Reduction Act**—
Hundreds of Millions of Dollars Annually
- **Unfunded Liabilities**—Multibillion Dollar
Exposure Over Time

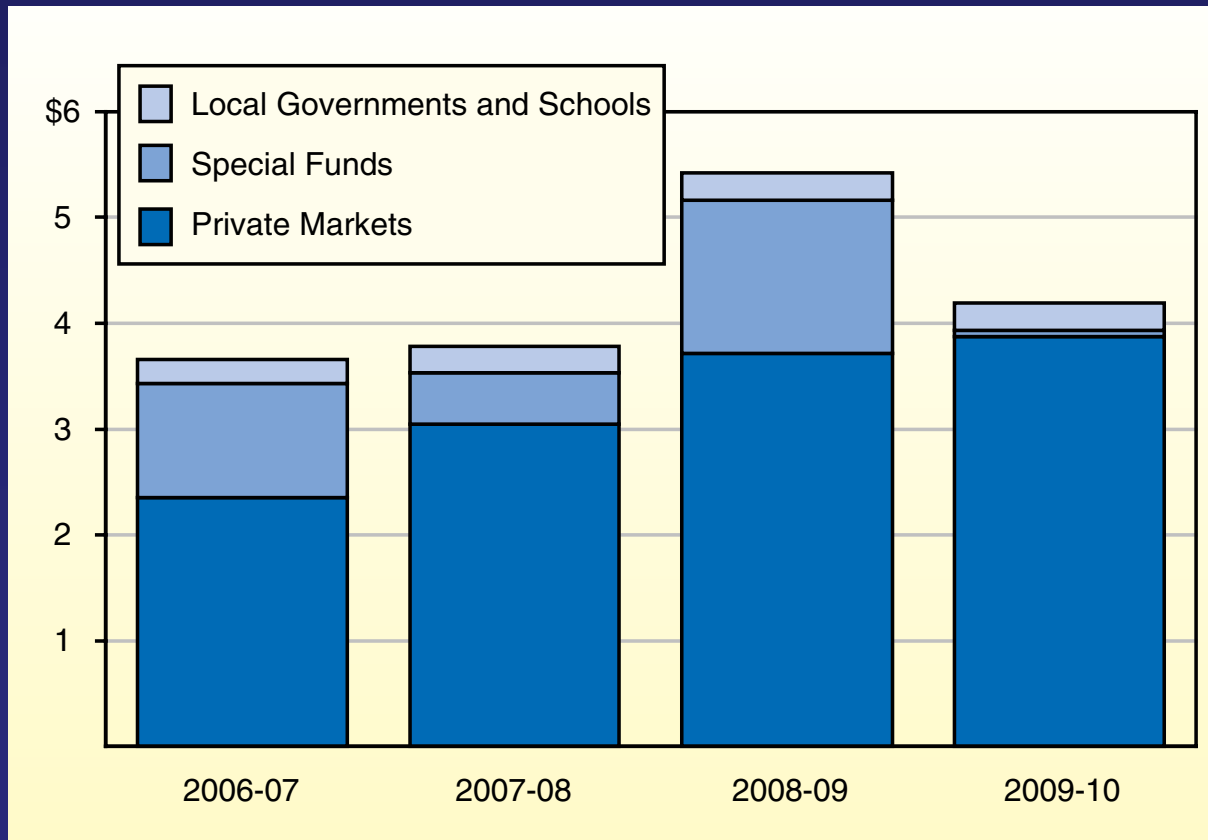
Budgetary Borrowing Outstanding After 2006-07



Total: \$20 Billion

Annual General Fund Costs Related to Budgetary Borrowing

(In Billions)



LAO Advice

- **Slow Spending Increases**
- **Use Resources to Increase Reserves or Prepay Debt**

What Does This Mean for K-12 Education?



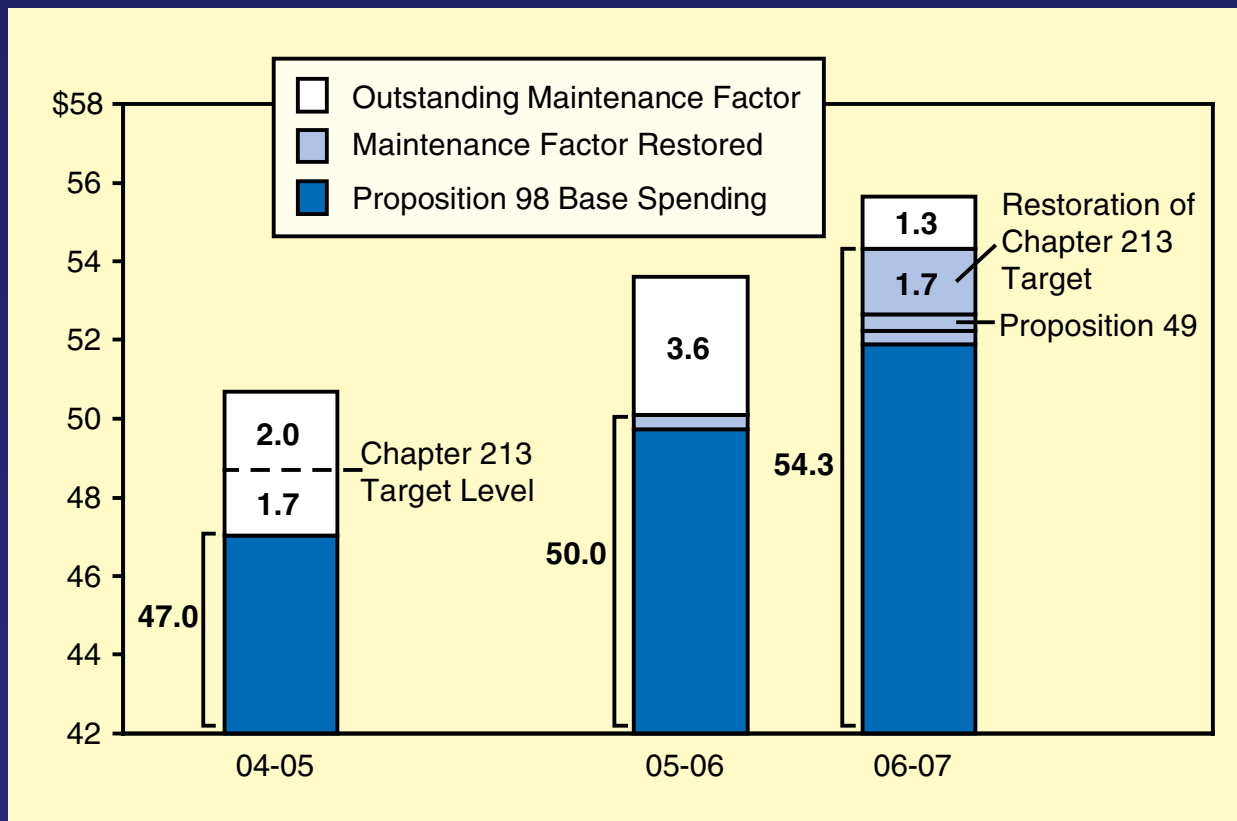
Governor's Proposition 98: Increases in 2006-07

(In Billions)

Sources		Uses	
Minimum guarantee	\$2.2	Baseline adjustments	\$2.9
Chapter 213 target	1.7	New or expanded programs	1.4
Proposition 49	0.4		
Total	\$4.3	Total	\$4.3

Governor's Budget: Proposition 98 Spending and Outstanding Maintenance Factor

(In Billions)



LAO Proposition 98

- **Fully Fund Base Program**
- **Supplement Base Program
With One-Time Funds**
- **Create Fiscal Solvency Block Grant**

Proposition 98: LAO Alternative for 2006-07

(In Billions)

Sources		Uses	
Minimum guarantee	\$2.2	Baseline adjustments	\$3.3
Above guarantee	1.1	New or expanded programs	0
Proposition 49	0		
	<hr/>		<hr/>
Total	\$3.3	Total	\$3.3

Proposition 98 Recommendation — Fully Fund Base

- **Governor proposes \$2.9 billion in increased funding for the base program.**
- **We recommend additional base funding:**
 - Higher COLA (\$307 million).
 - Fully fund declining enrollment costs (\$75 million).
 - Fully fund mandates (\$39 million).
 - Reduce community college growth (\$62 million)

Rates for K-12 Cost-of-Living Adjustment (COLA) and COLA Factors

2002-03 Through 2006-07

	2002-03	2003-04	2004-05	2005-06	2006-07 Estimate ^a
K-12 COLA	2.0%	1.9%	2.4%	4.2%	5.8%
K-12 COLA Factors					
Nondurable Goods—including oil and gas	-3.5%	3.6%	4.5%	12.1%	14.0%
Gross Investment—including construction	1.9	1.9	1.3	3.7	5.8
General Government Employee Compensation	4.1	4.6	4.4	3.6	3.8

^a Projected based on three quarters of 2005 data and estimates for first quarter of 2006.

Option 1. Settle-up Past Years Proposition 98

- **The state owes \$1.4 billion to schools to meet the Proposition 98 minimum guarantee for past years (through 2003-04)**
- **The state could meet these obligations, using the funding to pay for state mandate costs or deferrals.**

Status of the Education Credit Card Under the Governor's Budget Proposal

(In Millions)

	2003-04	2004-05	2005-06	2006-07
Deferrals				
K-12	\$1,097	\$1,083	\$1,103	\$1,103
Community colleges	200	200	200	200
Mandates				
K-12	\$946	\$1,096	\$1,234	\$1,110
Community colleges	55	73	91	109
K-12 revenue limit deficit	883	646	300	100
Totals	\$3,181	\$3,098	\$2,928	\$2,623

Option 2. Fiscal Solvency Block Grant

- **Provide \$411 million for a fiscal solvency block grant**
- **Districts would use funds to address the following priorities:**
 - 1) Make ongoing budgets “whole”
 - 2) Declining enrollment costs
 - 3) Unfunded retiree health benefits

Estimated K-12 Retiree Health Benefits Unfunded Liabilities

(Dollars Per Student Enrollment)

Benefit	Number of Districts	Per-Pupil Liabilities ^a		
		High	Average	Low
Lifetime	76	\$13,624	\$4,075	\$84
Over age 65, not lifetime	116	5,144	1,706	61
Up to age 65	431	5,061	2,668	5

^a These estimates are based on a subset of districts that provide the given benefit.

Reform Mandate Process

- Fully fund mandate costs — \$28.2 million
- Provide funding as a block grant that provides districts about \$27 per pupil.
- Districts would not have to document costs nor be subject to fiscal audit.

STAR Mandate Proposal

- Both sides feel current status in unfair.
- LAO compromise — the state funds state mandated tests, and districts fund federally mandated tests.
- Would provide \$104 million for past costs, and \$11.2 million ongoing.

Repeal Proposition 49

- **Repeal Proposition 49 because it:**
 - Triggers autopilot spending.
 - Is a low K-12 budget priority.
 - Some existing funding goes unused.

Implementation Questions on Proposition 49

- **Governor's proposal may supplant federal funds.**
- **Unclear what “furthers the purpose” means.**
- **Interaction with Proposition 98 guarantee contentious.**

Framework for After School Funding

- **Recommend the Legislature block grant funds to districts on a weighted pupil formula.**
- **Districts could make the local tradeoff between academic program and safety program.**
- **Allow funds to be integrated with other after school programs**

Reject Governor's New Categorical Programs

- **Fiscal solvency and base program are a higher priority.**
- **Takes a step backwards on categorical reform.**
- **Proposals have basic policy flaws.**
- **Virtually no planning, reporting, evaluation, or accountability components.**

Other Key Analysis Recommendations

- **Reform the Economic Impact Aid Formula.**
- **Special Education – Make technical fixes and fully fund growth and COLA on the federal portion of the budget.**
- **Reform the Williams Facilities Program.**

Other Key Analysis Recommendations (continued)

- **Reform Migrant Education program to pass more dollars to districts and fix the student information system.**
- **Instructional Materials — Eliminate augmentation (\$40 million) because increased lottery funds are available.**

Other Key Analysis Recommendations (continued)

- **Child Care – Redirect funds to Title V providers in high-cost counties.**

California's Population Outlook By Age Group

Population Change
2006 Through 2008

